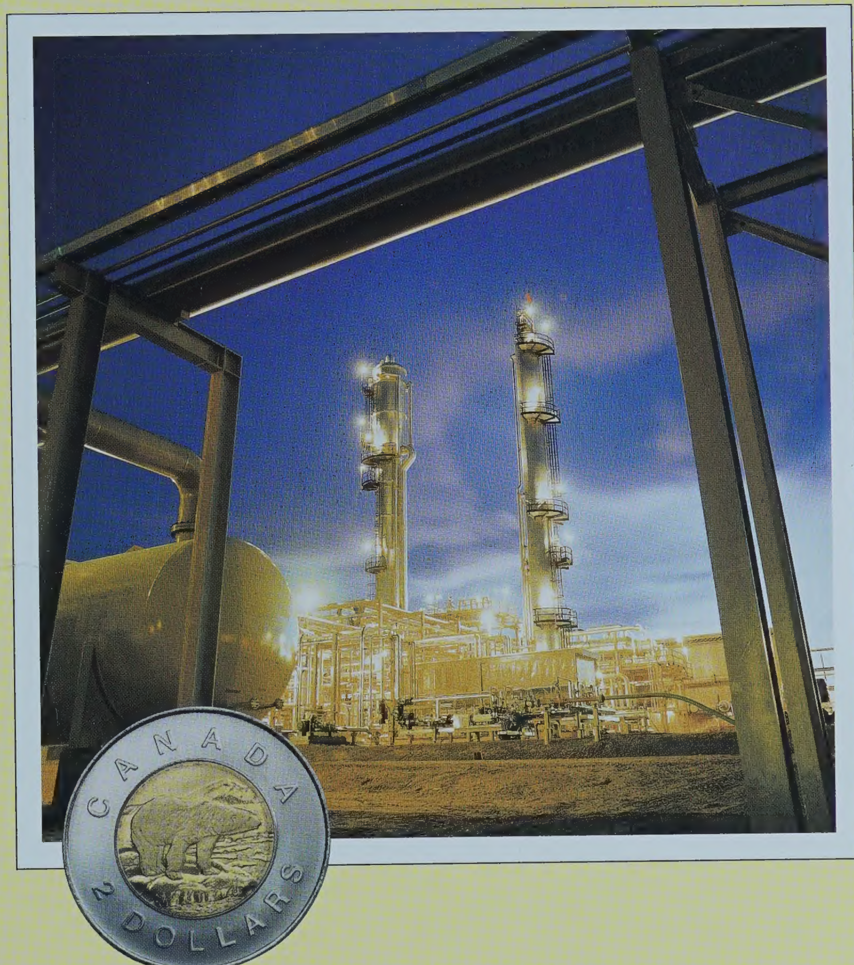
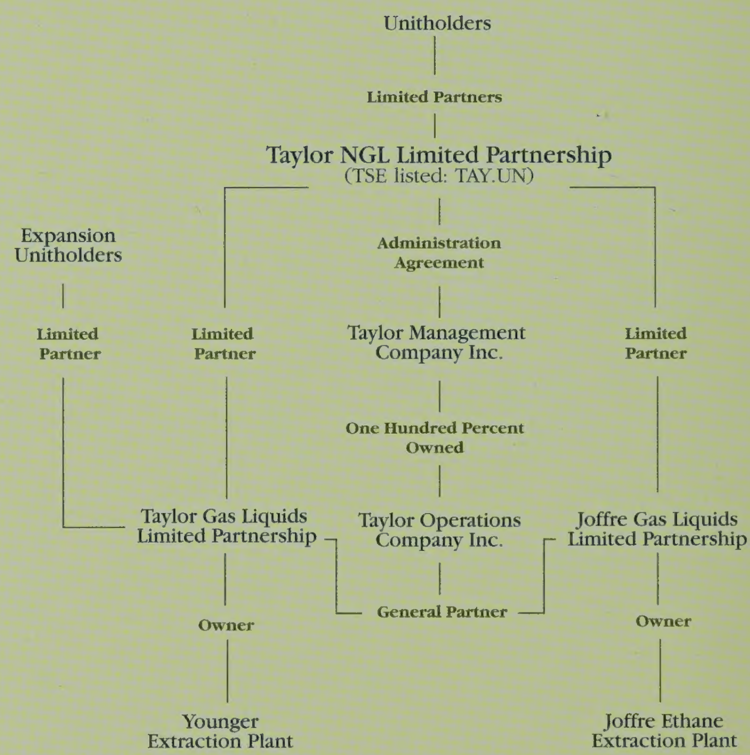


TAYLOR NGL Limited Partnership

Building Value | *Annual Report* **2002**

Corporate Profile

The Taylor NGL Limited Partnership (the Partnership or Taylor) trades on the Toronto Stock Exchange under the symbol TAY.UN. Taylor provides investors with a unique opportunity to participate in the energy business through the Taylor Gas Liquids Limited Partnership, which holds a majority interest in the Younger Extraction Plant, and through the Joffre Gas Liquids Limited Partnership, which holds a 50 percent interest in the Joffre Ethane Extraction Plant (JEEP). Both plants extract ethane, propane, butane and condensate, collectively known as natural gas liquids or NGLs, from natural gas. Taylor markets its share of Younger production through a long-term marketing arrangement with EnCana Corporation. At JEEP, the Partnership markets its share of ethane production to NOVA Chemicals Corporation under a long-term marketing arrangement and sells the remainder of the NGL production into the Alberta market at prevailing prices. Taylor and the plants are administered and operated by Taylor Management Company Inc., a privately-owned company.



Contents

Profile **IFC** Attributes **2** Highlights **4** Letter to Unitholders **5** Review of Operations **10** Management's Discussion and Analysis **18** Management's Responsibility Statement **26** Auditors' Report **27** Consolidated Financial Statements **28** Notes to the Consolidated Financial Statements **31** Corporate Governance **39** Corporate Information **40** Glossary **IBC**

***We distribute cash** to unitholders each quarter that is generated by Taylor's natural gas liquids production, treating and terminalling assets.*

***Taylor NGL Limited Partnership** has interests in and operates 2 facilities – one located at **Taylor** in northeastern British Columbia and the other at **Joffre** in central Alberta.*

Attributes of Taylor NGL Limited Partnership

Growth Strategy

Taylor is about growth through investments that are accretive and meet unitholders' requirements of stable, quarterly distributions.

With the construction of the Joffre Ethane Extraction Plant complete and the plant operational, management is again evaluating projects and acquisitions in the Western Canadian oil and gas infrastructure sector that will diversify Taylor's revenue and increase distributions to unitholders.

Active Management

Taylor, through its management team and staff, operates the assets it owns and manages the projects that it undertakes.

In conjunction with the field staff, management ensures that Taylor's plants are operating at their full potential, ensuring income is maximized.

Active management made 2002 the fifth consecutive year that operating costs per barrel of production have been reduced.

Active management resulted in the construction of the Joffre Ethane Extraction Plant being completed on schedule and on budget.

Prudent Decision Making

Taylor's growth opportunities are tested against specific investment criteria:

- Target opportunities that are low-risk, have predictable cash flow and are long-life.
- Acquire assets that have growth potential through technical, operational or marketing opportunities.
- Acquire assets such that Taylor is the operator of the facilities and has a controlling interest.
- Grow in manageable steps to ensure smooth integration into current business activities.

Invest in High Quality Assets

Taylor's assets, the Younger Plant and the Joffre Plant, are long-life facilities with expected useful lives in excess of 40 years. Due to the type of equipment and the process employed at the plants, very little maintenance capital is required. These are low impact plants with minimal emissions.

Once operational, off-line time is rare as these plants are very reliable. The only significant off-line time occurs every five to ten years for scheduled maintenance and vessel inspections, as was completed at the Younger Plant over a three-week period in the summer of 2002.

The Impact

Total Return Over 4 Years* 52%

9% in 1999

24% in 2000

19% in 2001

7% in 2002

*Annual Total Return**

** Total Return is the total value realized per unit divided by the purchase price of the unit. Total value realized is the cash distributions plus the unit price appreciation over the period which Total Return is being calculated.*

Highlights

Years ended December 31, (thousands of dollars except unit values and volumes)	2002	2001
FINANCIAL		
Gross revenue	$ 85,087	$ 117,334
Distributable cash flow	$ 4,375	$ 4,861
Fully diluted per unit	$ 0.45	$ 0.50
Net income	$ 4,100	$ 2,102
Diluted per unit	$ 0.42	$ 0.21
Capital expenditures	$ 17,774	$ 7,970
Unit price		
High	$ 4.94	$ 5.49
Low	$ 4.27	$ 4.20
Close	$ 4.54	$ 4.70
Units traded	3,865,615	2,195,187
Value of units traded	$ 17,781	$ 10,369
Outstanding units at year-end	9,722,713	9,722,713
OPERATIONS		
Gas volumes processed (mmscf/day)	297	317
Daily average production (bbls/day NGL)	13,137	13,634
Unit operating costs (per bbl NGL)	$ 2.28	$ 2.41

Letter to Unitholders

BUILDING VALUE. The theme of the 2002 annual report captures a milestone year in which Taylor NGL Limited Partnership completed construction of a second major asset at Joffre, Alberta. The new plant, which reflects a business strategy of growing and diversifying the Partnership in a way that is accretive to unitholder distributions, was commissioned during the first quarter of 2003. It is currently processing about 110 million standard cubic feet per day of natural gas, resulting in the addition of about 3,400 barrels per day of natural gas liquids to Taylor's net production. Taylor's original asset, the Younger Extraction Plant located in Taylor, British Columbia, set several production records in 2002, and reduced operating costs per barrel of production for a fifth straight year. Management is excited by its achievements - and pleased with the anticipated impact on unitholder distributions and value.

In 2002, Taylor distributed $0.45 per unit to investors, on a 100 percent tax-deferred basis. The Partnership's total return in 2002 was seven percent. Since 1999, Taylor's total return has been over 50 percent, compared to the TSX Composite Index, which declined by 20 percent over the same timeframe.

A Sound Business Model

Taylor occupies a position in the natural gas value chain by owning and operating two large-scale natural gas processing facilities that produce ethane, propane, butane and condensate - products collectively known as natural gas liquids, or NGLs. Since these types of natural gas processing plants straddle major natural gas pipelines in order to extract the natural gas liquids from natural gas, they are commonly called straddle or extraction plants. There are eight such straddle plants in Alberta and one in British Columbia.

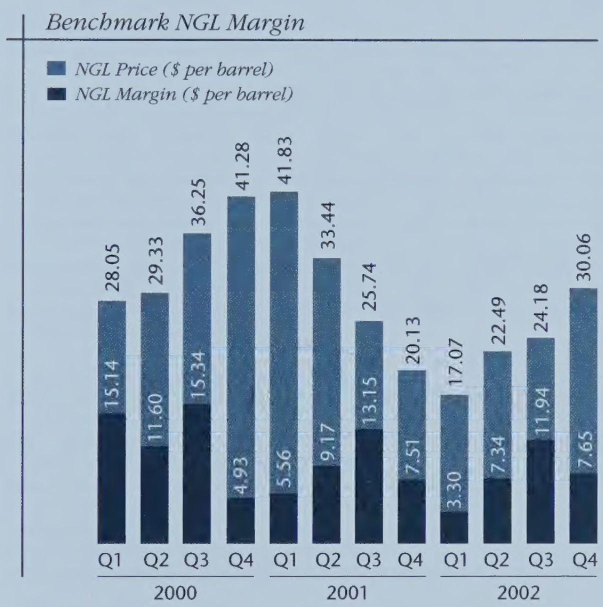
Natural gas liquids are an important hydrocarbon commodity, with many uses in the North American industrial, commercial and consumer sectors. In Alberta, natural gas liquids, particularly ethane, are used as feedstock for the ethylene-based petrochemical industry. Propane, another component of natural gas liquids, is used for residential, commercial and industrial heating and to power propane-fuelled vehicles. Butane plays a role in gasoline blending, while condensate is used in crude oil blending and as a refinery feedstock.

Taylor's senior management team. Left to right:
David Schmunk, *Chief Operating Officer* **Gord Salahor,** *Vice President Commercial Operations*
Barry O'Brien, *Chief Financial Officer* **Brad Mattson,** *Controller* **Dr. Andy Younger,** *Advisor*
Bob Pritchard, *President and Chief Executive Officer* **Terry Killackey,** *Vice President Business Development*

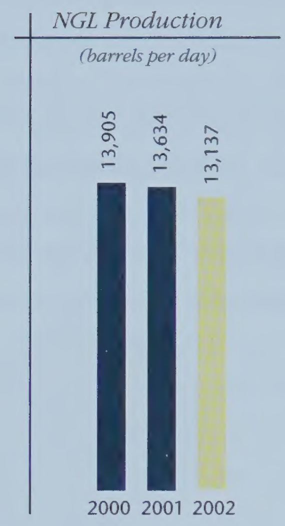
The Younger Extraction Plant

Taylor's original plant, the Younger Extraction Plant, straddles the Duke Energy Gas Transmission and Williams Energy (Canada), Inc. gas transmission systems at Taylor, British Columbia. Natural gas liquids produced by the Partnership at Younger are sold to EnCana Corporation. Under the terms of this long-term marketing agreement, Partnership revenue from the sale of natural gas liquids consists of actual operating and feedstock costs, a return on capital fee and a 50 percent profit share. This arrangement ensures that a significant component of operating income is both stable and predictable. Upside is provided from the profit share arrangement, the magnitude of which is largely a function of the difference between the revenue received by EnCana Corporation upon final sale of the natural gas liquids acquired from Younger and the cost of natural gas purchased by Taylor for use as feedstock. This difference is referred to as the natural gas liquids margin. In early 2002, low prices for natural gas liquids – reflecting weak demand due to an unseasonably warm winter – kept margins low. Very high natural gas liquids inventories across North America also contributed to depressed prices. However, as the year progressed, inventory levels returned to more normal levels and natural gas liquids prices began to recover. Margins were strong by the third quarter of 2002, but retreated slightly in the fourth quarter as natural gas prices increased due to strong seasonal demand.

As is typical in the sale of commodities, there are opportunities to realize premium prices due to regional supply-demand imbalances. Because Younger is strategically located and has unique access to many different markets through its transportation options, management can generate significant value by quickly responding to these marketing opportunities.



In 2002, operating costs per barrel of production declined for the fifth straight year. Operating costs were five percent lower than 2001, reflecting greater control over energy costs incurred in operating the plant. In August 2002, the Younger Plant was shut down for three weeks of scheduled maintenance and the required regulatory inspection of major vessels and equipment. This work confirmed the excellent condition of the plant. A shutdown of this magnitude is required every five to ten years.



In 2002, total Partnership production of natural gas liquids exceeded 13,100 barrels per day. This production level was slightly lower than 2001 due to the three-week shutdown. Taylor is pleased to report that Younger set a one-day production record of 30,335 barrels in September 2002, of which Taylor's share was 18,780 barrels.

The Joffre Ethane Extraction Plant

Since 1996, the Younger Plant has been Taylor's sole asset. A series of prudent expansions has ensured that the Younger Plant's capacity and recovery efficiency are appropriate for the available natural gas supply. In order to significantly increase unitholder value, it was vital that the Partnership invest in additional assets. Taylor received approval to pursue investments in western Canadian oil and gas infrastructure assets at Taylor's annual general meeting in April 2001 and in June 2001, management announced plans to build the $45 million Joffre Ethane Extraction Plant (JEEP).

In 2002, operating costs per barrel of production declined for the fifth straight year.

Operating costs were lower than 2001, **5%**

reflecting greater control over energy costs incurred in operating the plant.

This new plant, located at Joffre, Alberta is designed to remove natural gas liquids from the natural gas that is consumed at NOVA Chemicals Corporation's nearby world-scale petrochemical facility. Construction of JEEP was completed in November 2002 – on time and on budget – and the plant was commissioned without incident. By the first quarter of 2003, the plant was fully operational and contributing to revenue and unitholder distributions.

In December 2001, AltaGas Services Inc. purchased a 50 percent interest in JEEP. AltaGas, Canada's leading independent midstream company, is focused on providing facilities and services to efficiently move energy from its source to the end-user. AltaGas' producer services and gas marketing capabilities complement Taylor's expertise in operating and developing natural gas liquids-related infrastructure projects. Under the terms of the joint venture, AltaGas and Taylor will work to develop projects that will enhance the value of the plant.

Taylor has entered into commercial arrangements for the sale of JEEP production that meet unitholders' requirements for managed risk. A significant portion of JEEP's revenue is derived from a fixed-fee ethane sales contract with NOVA Chemicals Corporation. At the same time, Taylor has upside exposure because the propane, butane and condensate portion of the natural gas liquids is sold into the Alberta market at prevailing prices.

Outlook

As we enter 2003, volatile energy prices are influencing short-term operating strategy at both plants. Even though natural gas feedstock prices are high, low natural gas liquids inventories, seasonal demand and the prospect of improving economic conditions are combining to preserve margins. This is a very different environment than a year ago, when low demand and very high inventories across North America suppressed margins.

Since the Younger Plant is operating at optimal recovery efficiency, future production growth depends on management's ability to increase the volume of natural gas processed through the plant. Taylor is witnessing increased competition for feedstock, specifically from Alliance pipeline shippers who can divert natural gas off the Duke system upstream of Younger. Taylor will continue to compete for feedstock by offering natural gas shippers creative commercial arrangements that meet their ever-changing needs. These arrangements include a variety of contract terms, which link payments to many different natural gas and natural gas liquids indices and provide volume flexibility. Management has the knowledge to respond to changes in the market and will endeavour to keep Younger operating at optimal levels.

JEEP has diversified Taylor's revenue since its production is sold into Alberta markets, unlike Younger production that

is sold mainly into British Columbia and western North American markets. Like Younger, JEEP natural gas liquids production will depend on the amount of natural gas that is processed at the plant. The natural gas volumes available to JEEP are determined by the downstream demand at NOVA Chemicals Corporation's petrochemical facility and the related plants that comprise the Joffre industrial complex. JEEP is positioned to benefit from increased capacity utilization and expansion of this complex.

JEEP represents the first step in Taylor's growth and diversification strategy. With completion of the new asset, management is again evaluating projects and acquisitions in the western Canadian oil and gas infrastructure sector that will further diversify and increase operating income by:

- Targeting opportunities that are low-risk, have predictable cash flow and are long-life;
- Acquiring assets that have technical, operational or marketing upside and where Taylor can operate the facilities and have a controlling interest; and
- Growing in manageable steps to ensure smooth integration into current business activities.

Administration

In 2001, the Partnership and Taylor Management Company Inc. entered into a five-year contract that aligns management's interests with those of unitholders. The contract eliminated any acquisition or disposition fees, relying instead on a performance-based incentive that rewards management only if distributions are greater than $0.70 per unit per year.

In 2002, management reduced administration costs to a remarkable $8,500 – undoubtedly one of the lowest in the income fund or royalty trust sectors. The very low costs in 2002 reflected management's ability to offset essentially all of Taylor's administration costs with recoveries for services provided to third parties and continued the trend of reducing administration costs on a per barrel of production basis.

The addition of JEEP has increased Taylor's production capacity by about 25 percent. Through the use of sophisticated management and accounting systems, the administration of JEEP has been incorporated into Taylor Management Company Inc. without the addition of new staff.

Acknowledgements

The Board of Directors wishes to thank Taylor's staff in Calgary, at the Younger Plant and at the Joffre Plant for their contribution in 2002.

As Taylor continues to move beyond its British Columbia roots, the Directors have contributed wisdom and guidance and we thank them for their support during the year. We look forward to working with the Board in 2003, as we grow Taylor's business at Younger, at JEEP and beyond. We also thank our investors for their loyalty and look forward to continuing to build value.

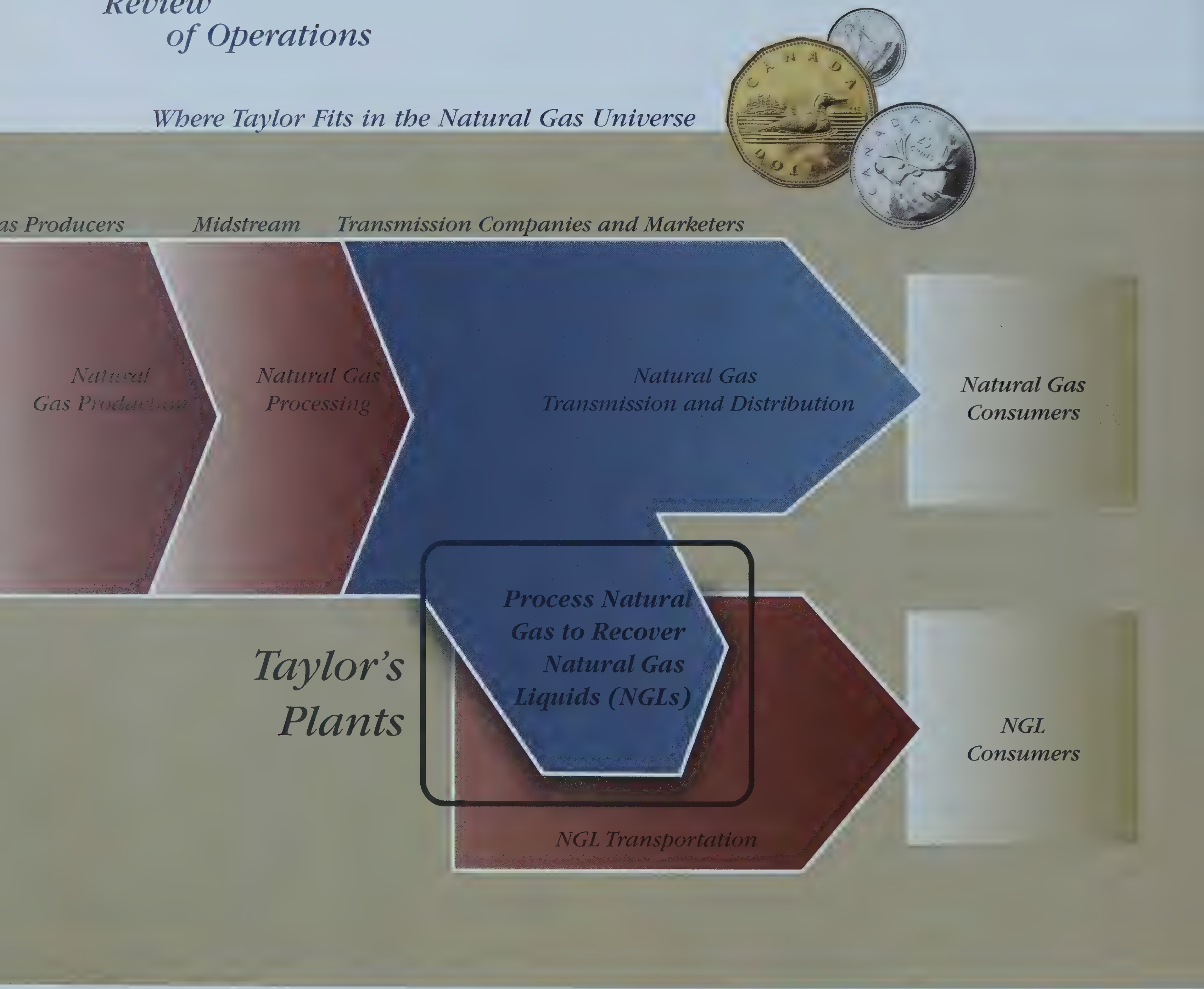
On behalf of the Board of Directors,

Robert B. Catell	Robert J. Pritchard
Chairman	President and C.E.O.
Taylor Gas Liquids Ltd.	Taylor Gas Liquids Ltd.

March 17, 2003

Review of Operations

Where Taylor Fits in the Natural Gas Universe



How Taylor's Plants Operate

While natural gas consists mainly of methane, it also contains natural gas liquids including ethane, propane, butane and condensate. Taylor's plants extract natural gas liquids from the natural gas stream in three main steps:

1. Natural gas that is being transported on a high-pressure gas transmission system enters the plant and is cooled to condense most of the ethane and essentially all of the propane, butane and condensate to a liquid.

2. The methane and unrecovered ethane form a residue gas stream that is redelivered back to the gas transmission system.

3. The recovered natural gas liquids mixture is separated into ethane, propane, butane and condensate and treated to meet commercial specifications before moving into the NGL transportation infrastructure.

In the eyes of a shipper that is moving natural gas on the gas transmission system, the energy removed from the natural gas stream through the extraction of natural gas liquids looks like a natural gas sale. This extracted energy is often referred to as shrinkage since recovery of the natural gas liquids shrinks, or reduces, the natural gas stream. Essentially, shrinkage is the feedstock for the natural gas liquids produced.

Since Taylor's plants straddle natural gas transmission systems and extract natural gas liquids from natural gas, they fall into a family of gas processing facilities that are known as straddle or extraction plants.

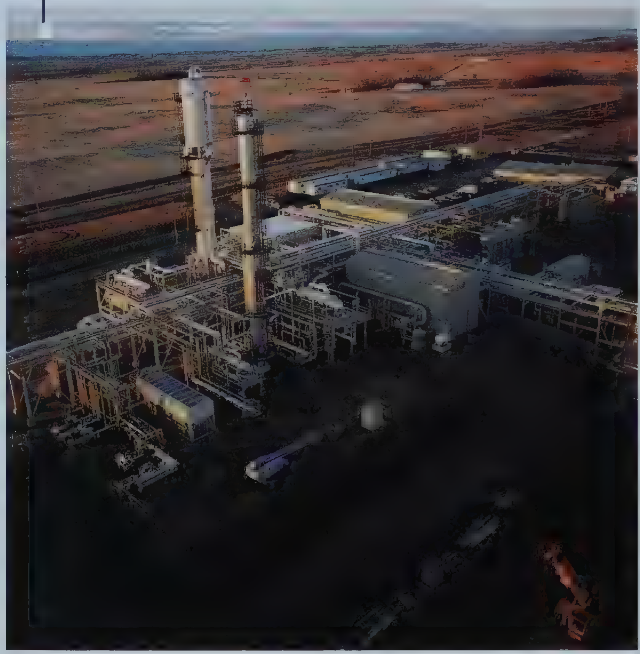
Taylor owns and operates the Younger Extraction Plant and the Joffre Ethane Extraction Plant.

Younger Extraction Plant

Location	Taylor, British Columbia
Products produced	Ethane, propane, butane and condensate
Taylor's net 2002 production	13,137 barrels per day
Taylor's net capacity	425 mmscf per day

Joffre Ethane Extraction Plant

Location	Joffre, Alberta
Products produced	Ethane and propane plus
Commercial operations began	First quarter 2003
Taylor's net capacity	125 mmscf per day



Younger Extraction Plant

Taylor owns interests of 57 percent to 100 percent in the natural gas liquids production, treating and terminal facilities at the Younger Plant located in Taylor, British Columbia. The plant has a gas processing capacity of 750 million standard cubic feet per day, of which Taylor's share is 425 million standard cubic feet per day.

Younger is strategically located at a major energy hub with interconnects to three natural gas transmission systems: the Duke Energy Gas Transmission system that serves British Columbia and the Pacific Northwest; the Williams Energy (Canada), Inc. Stoddart system that brings natural gas to Younger from northeastern British Columbia; and the Alliance system that moves natural gas to the Chicago area.

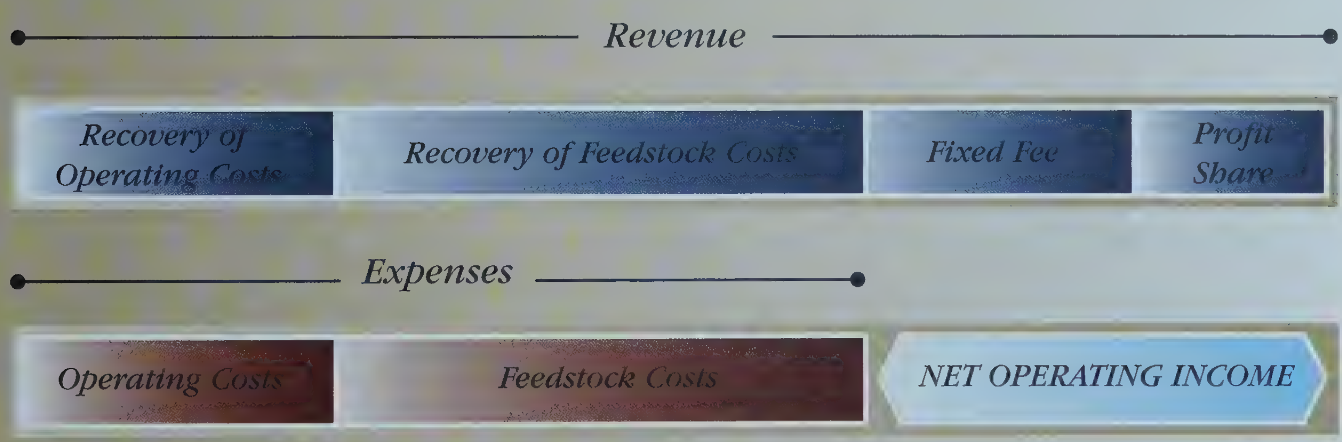
With its state-of-the-art cryogenic process, the Younger Plant removes as much as 50 barrels of natural gas liquids from each million standard cubic feet of natural gas processed through the plant. Younger is the largest producer of ethane, propane and butane in British Columbia and the fifth largest in Canada.

Business Model

Taylor's business model at Younger involves purchasing natural gas as feedstock and selling ethane, propane, butane and condensate. Therefore, the economics of extracting natural gas liquids involve the pricing of commodities including natural gas, ethane, propane, butane and condensate. Consequently, Taylor has structured its natural gas liquids sales contract in a way that manages the Partnership's exposure to fluctuating prices.

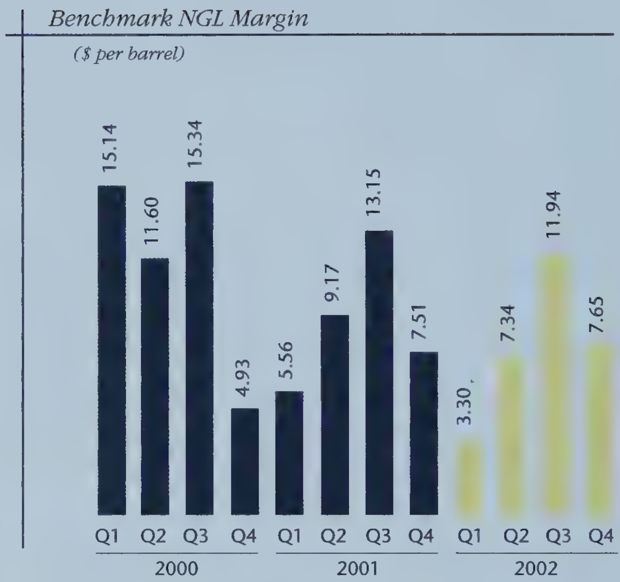
The natural gas liquids produced by Taylor at the Younger Plant are sold to EnCana Corporation. Under this long-term contract, the sales price includes the recovery of actual operating and feedstock costs, and pays both a fixed fee and a profit share. Taylor's net operating income from the Younger Plant is the sum of the very stable and predictable fixed fee, plus an upside component due to the exposure to commodity prices through the profit share.

Younger Extraction Plant

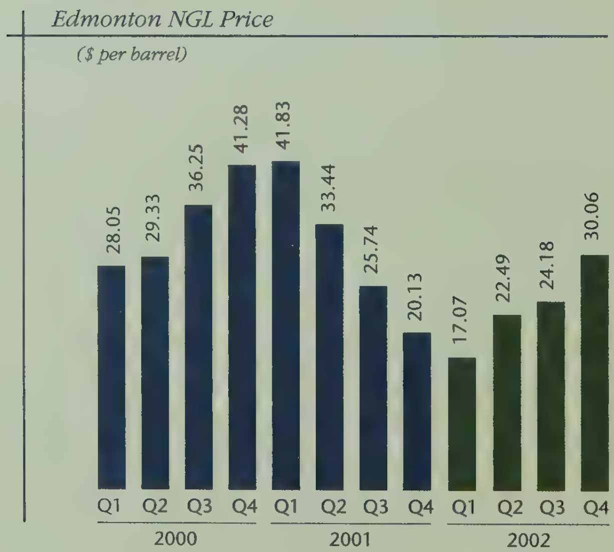


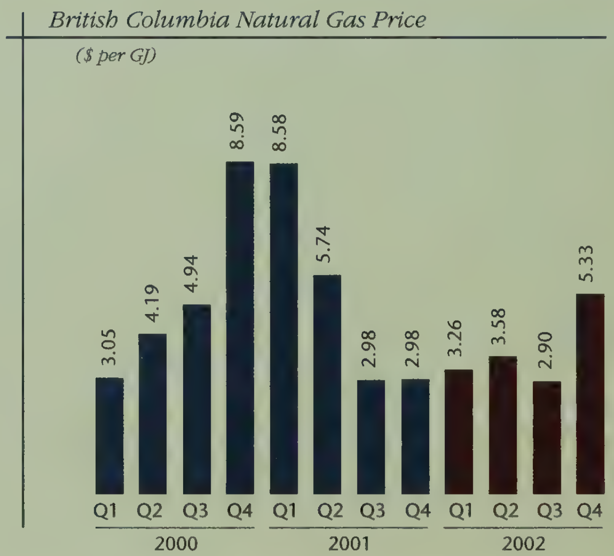
The profit share component of Taylor's sales price is a 50 percent participation in the revenue that EnCana Corporation realizes from the final sale of the natural gas liquids that it purchases from Younger, less all costs. When the costs exceed the price received by EnCana Corporation from the final sale of the natural gas liquids, the deficiency is held in a deferral account and carried forward to be applied against future profits.

The profit share portion of Taylor's sales price is strongly influenced by the margin between the price of natural gas liquids and the cost of the natural gas feedstock. Since Edmonton is the clearing market for Younger production, Edmonton postings for propane, butane and condensate are a reasonable proxy for the value of natural gas liquids in Western Canada. Taylor purchases the natural gas feedstock for the Younger Plant from the British Columbia market.



The difference between the Edmonton NGL price and the British Columbia natural gas price is the Benchmark NGL margin for Younger Plant production.





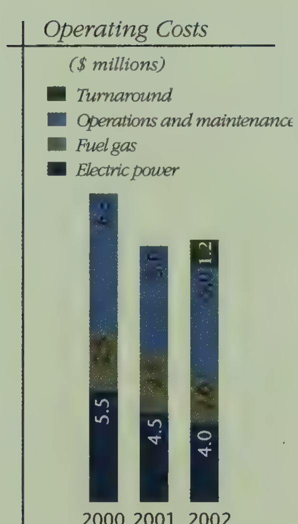
Production and Operations

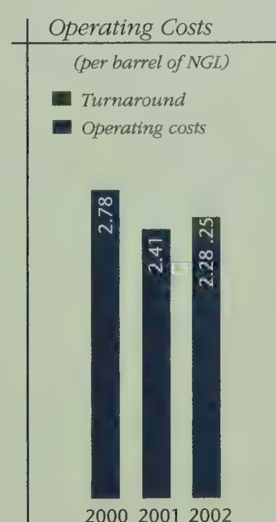
In 2002, management's focus on costs achieved excellent results. During the year, Taylor established a record low operating cost of $2.28 per barrel of production. As with any straddle plant, the largest cost – after shrinkage – is the power required to recompress the residue gas back to the operating pressure of the natural gas transmission system. At Younger, this is accomplished using electric-drive compressors. Therefore, a significant component of operating costs is electricity purchased from B.C. Hydro.

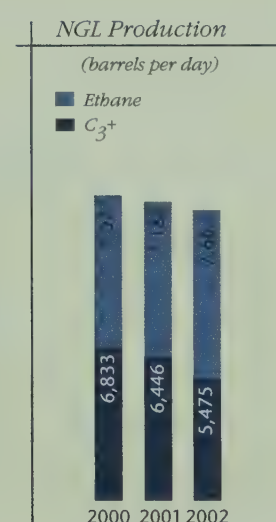
In August 2002, Younger experienced a scheduled three-week shutdown to perform maintenance and internal inspection of all vessels. This turnaround was a very significant project requiring months of planning, and cost $1.2 million net to the Partnership. Due to the long-life, low-maintenance nature of the equipment used in processing at Younger, a turnaround of this magnitude is only required every five to ten years.

The Partnership's commitment to cost control and reliability will continue throughout 2003.

In 2002, Taylor processed an average of 297 million standard cubic feet per day of natural gas on a calendar-day basis at Younger, a six percent decrease from the previous year. During the same period, Taylor's production averaged 13,137 barrels per day of natural gas liquids, comprised of 7,662 barrels per day of ethane and 5,475 barrels per day of C_3^+ (propane, butane and condensate). Production was slightly lower than 2001 for two reasons: the three-week shutdown in August and management's decision to curtail propane production in the first quarter of 2002 due to poor market conditions. The Younger Plant is unique in that an individual product, such as propane, can be rejected while maintaining the efficient production of the remaining slate of natural gas liquids: ethane, butane and condensate.







Joffre Ethane Extraction Plant (JEEP)

In November 2002, the Partnership completed construction of the $45 million Joffre Ethane Extraction Plant (JEEP), on time and on budget. JEEP extracts the natural gas liquids from the fuel gas that is supplied to NOVA Chemicals Corporation's nearby world-scale petrochemical facility. Following pre-production commissioning and testing through the first quarter of 2003, the plant is now in full commercial production.

AltaGas Services Inc. is a 50 percent owner of JEEP. AltaGas is Canada's leading independent midstream company focused on providing facilities and services to efficiently move energy from its source to the end-user. AltaGas' producer services and gas marketing capabilities complement Taylor's expertise in operating and developing natural gas liquids-related infrastructure projects. Under the joint venture arrangement, AltaGas and Taylor will work to develop projects that will enhance the value of the facility.

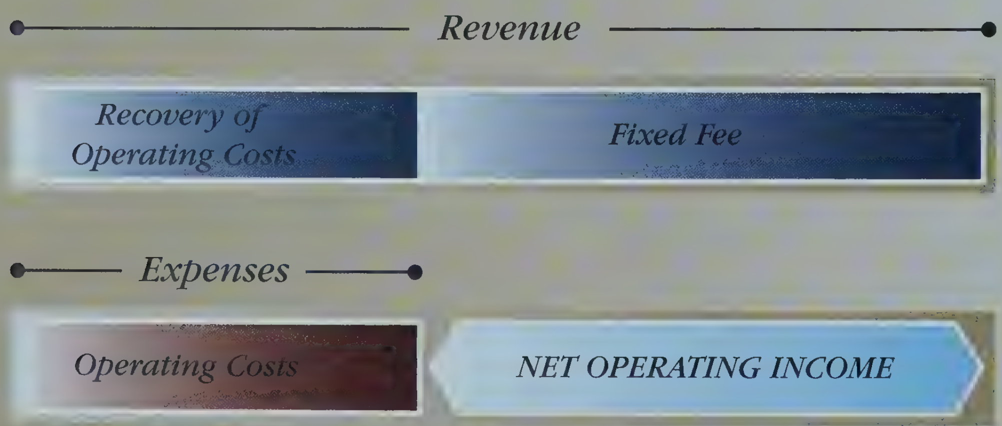
Business Model

Taylor's business model at JEEP is similar to the Younger Plant: purchase natural gas as feedstock and sell ethane, propane, butane and condensate. As with Younger, sales contracts for the natural gas liquids produced at the plant have been structured in a way that manages commodity price exposure.

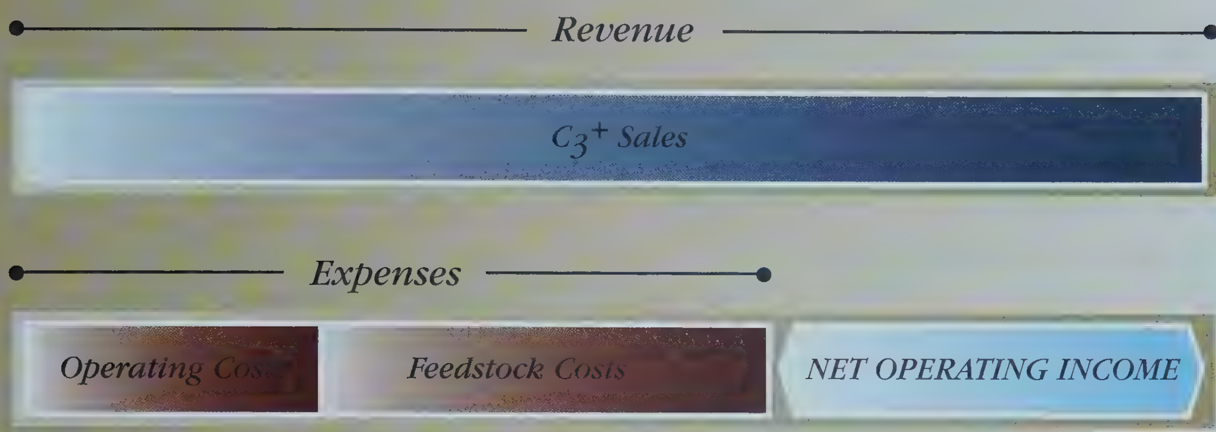
NOVA Chemicals Corporation will purchase the ethane under a long-term contract that provides for the recovery of operating costs and the payment of a fixed fee. The net operating income from ethane sales is very stable and predictable as it is simply the fixed-fee component of the sales price to NOVA. The C_3^+ portion of the natural gas liquids, which consists of propane, butane and condensate, will be sold into the Alberta market at prevailing prices. In the case of the C_3^+ production, the net operating income is a function of the natural gas liquids margin and production volumes.

Therefore the net operating income stream from JEEP has a similar risk profile to the Younger Plant – significant fixed-fee-based income, with commodity price upside.

Joffre Ethane Extraction Plant – ETHANE PRODUCTION



Joffre Ethane Extraction Plant - C_3^+ PRODUCTION



Operations

The Joffre Plant has been operating since the first quarter of 2003, with early results meeting expectations and indicating the plant is performing as designed. The incorporation of the latest process technologies has resulted in a plant that is low cost and very reliable.

Unique among straddle plants, JEEP has been configured to respond to market conditions having the ability to selectively reject some or all of the production from the plant. If C_3^+ margins are poor, the Partnership can simply not recover the product and not incur feedstock costs. Similarly, if NOVA Chemicals Corporation does not require ethane, then the plant can leave this product in the natural gas stream. Since NOVA Chemicals Corporation pays Taylor a fixed fee regardless of volume of ethane produced, NOVA Chemicals Corporation's operating strategy has minimal financial effect on Taylor.

Environment, Health and Safety

Taylor's commitment to environmental, health and safety programs was rewarded in 2002. The construction of the Joffre Plant, which required about 190,000 man-hours, was completed without any reportable safety or environmental incidents.

Management will continue to support and improve the environmental, health and safety program that focuses on training, risk assessment, hazard analysis, emergency response planning and communication.

Management's Discussion and Analysis

The following discussion and analysis of financial results should be read in conjunction with the audited financial statements and notes.

Certain information included herein is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. All financial figures are in Canadian dollars unless otherwise stated.

2002 Financial Highlights

- Construction of the Joffre Plant was completed in November 2002 followed by pre-production testing and commissioning through the first quarter of 2003.
- Capital additions of $17.8 million during 2002 for the construction of the Joffre Plant and projects undertaken at the Younger Plant. These additions were funded by draws on the long-term debt facility of the Partnership.
- Settlement of property and business interruption insurance claims arising from the 1999 incident at the Younger Plant. As a result, the Partnership recorded a one-time inclusion in income of $2.6 million in insurance recoveries.
- Decline of 22 percent in shrinkage gas cost at the Younger Plant to $4.37 per gigajoule (GJ) in 2002 from $5.58 per GJ in 2001.

Cash Distributions

The Board of Directors of the Partnership announced a cash distribution for the fourth quarter of 2002 of $0.14 per unit, which was paid on February 15, 2003 to unitholders of record at the close of business on February 5, 2003. This payment resulted in total distributions declared in fiscal 2002 of $0.45 per unit, compared to $0.50 per unit for the 2001 fiscal year.

The Partnership pays cash distributions on a quarterly basis to unitholders of record

on February 5, May 5, August 5 and November 5. Distributions are payable on the 15th day of that same month. For 2002, all cash distributions are tax-deferred and therefore characterized as a 'return of capital'. For most unitholders, the return of capital amount will reduce the cost base of each unit for the purposes of calculating any capital gains when the units are ultimately sold.

Operating Results Summary

(in thousands, except per unit and volume amounts)

	2002	2001
Total revenues	$ 85,087	$ 117,334
Total expenses	$ 80,987	$ 115,232
Net income	$ 4,100	$ 2,102
Net income per unit	$ 0.42	$ 0.22
Distributable cash flow	$ 4,375	$ 4,861
Distributable cash flow per unit	$ 0.45	$ 0.50
Average production (barrels of NGL per day)	13,137	13,634

During the year ended December 31, 2002 the Younger Plant operated continuously, except for a scheduled three-week shutdown in August for equipment maintenance and inspection.

Natural Gas Liquids Sales

The energy removed from the natural gas stream and processed into natural gas liquids, commonly called "shrinkage gas", must either be replaced by an equivalent amount of natural gas or purchased directly from the natural gas shipper. Essentially, shrinkage gas is the "feedstock", or raw material, for the natural gas liquids produced. The natural gas liquids margin is the difference between the market value of the produced ethane, propane, butane and condensate and the cost of the shrinkage gas.

The largest component of total revenues is the sale of natural gas liquids, which at the Younger Plant consists of recovery of shrinkage gas costs, recovery of operating costs, a return on capital fee and a 50 percent profit share based on both actual operating costs (operating pool) and the natural gas liquids margin (marketing pool), as established under the natural gas liquids Purchase Agreement with EnCana Corporation. In 2002, the Younger Plant was Taylor's only operating asset.

The largest component of natural gas liquids sales is the recovery of shrinkage gas costs, which at the Younger Plant averaged $4.37 per GJ during 2002, compared to an average of $5.58 per GJ for 2001, a 22 percent decline. As a result, total revenues were $32.2 million lower in 2002, compared to 2001. The decrease in natural gas liquids sales revenue was offset by a decrease in shrinkage gas costs, which are part of total expenses.

Natural gas liquids production for the year ended December 31, 2002 averaged 13,137 barrels per day compared to 13,634 barrels per day for 2001. This decline mostly resulted from the scheduled Younger Plant maintenance shutdown.

Fee Income

Fee income consists of revenue received from third-party use of Younger Plant facilities. Fee income for the year ended December 31, 2002 was $7.0 million compared to $6.5 million for 2001.

Shrinkage Gas

The cost of shrinkage gas declined 32 percent to $65.0 million for the year ended December 31, 2002 compared to $95.7 million for 2001. This decline was primarily due to reduced natural gas prices, as previously mentioned, and reduced production compared to 2001.

Operating Costs

Excluding the non-recurring costs associated with the Younger Plant turnaround of $1.2 million, operating costs for the year ended December 31, 2002 were $11.0 million compared to $12.0 million for the same period in 2001. On a per unit basis, operating costs averaged $2.28 per barrel of natural gas liquids, for the year ended December 31, 2002 compared to an average of $2.41 per barrel of natural gas liquids for 2001.

Depreciation

Depreciation expense for the year ended December 31, 2002 was $2.7 million, which approximated the 2001 level.

Administration Costs

For the year ended December 31, 2002 administration costs declined significantly due to cost reductions and increased overhead recovery fees resulting in a nominal expense for 2002. Administration costs for 2001 were $1.0 million, net of overhead recovery fees.

Interest Expense

Interest costs of $0.4 million for 2002 were lower than the prior year's $0.5 million, reflecting lower interest rates during 2002.

Foreign Exchange

Effective January 1, 2002 the Partnership adopted the recommendation of the Canadian Institute of Chartered Accountants to eliminate the deferral and amortization of unrealized translation gains and losses on foreign currency-denominated monetary liabilities. This recommendation was adopted retroactively, with restatement. The impact of this change resulted in the following: an increase of $0.1 million to net income for 2002 and a charge of $0.7 million to net income for 2001. These changes to net income are non-cash items and do not affect distributions to unitholders.

Management Fees, Overhead Recovery Fees and Distributions to Limited Partners

Management fees were unchanged at $0.2 million for each of the years 2002 and 2001. Overhead recovery fees were $1.7 million for the year ended December 31, 2002 compared to $1.0 million for 2001 due to increased services provided to third parties.

Distributions to limited partners were $1.5 million for the year ended December 31, 2002 which approximated the 2001 level.

Insurance

In December 2002, the Partnership recorded a one-time inclusion in income of $2.6 million for insurance recoveries. This is the result of settling the property reconstruction and business interruption insurance claims arising from the 1999 incident at the Younger Plant.

Income and Capital Taxes

Income and capital taxes were nil in 2002 and 2001. As a limited partnership, Taylor does not provide for income and capital taxes.

Due to its partnership status, Taylor's taxable income is allocated to unitholders at year-end. For the 2002 tax year, Taylor allocated a business loss of $0.12 per unit to unitholders. For the 2001 tax year, Taylor allocated a capital gain of $0.26 per unit of which $0.13 per unit was taxable. The taxable portion of the capital gain was offset by an allocation of business losses equal to $0.13 per unit. The net taxable effect to unitholders was nil for 2001. Allocations of taxable income to unitholders are added to the income of the unitholders for tax purposes and increase their unit cost base, while distributions

received and allocations of business losses reduce their unit cost base for purposes of determining any capital gain upon the ultimate sale of the units.

Net Income

Net income was $4.1 million for the year ended December 31, 2002, an increase of $2.0 million from the $2.1 million recorded in 2001, as a result of insurance recoveries.

Marketing Pool

The marketing pool component of natural gas liquids sales is the profit share component of the natural gas liquid sales price under the Younger Plant marketing contract with EnCana Corporation. Taylor receives 50 percent of the proceeds received from the final sale of natural gas liquids sales by EnCana Corporation, net of all costs. If the proceeds on the final sale of natural gas liquids do not exceed these costs, then future proceeds will only accrue to Taylor after the retirement of this deficiency.

The marketing pool did not contribute to distributions to unitholders in the year ended December 31, 2002 compared to a contribution of $1.4 million in 2001. At the end of December 2001, the Partnership reported a marketing pool deficit balance of $2.1 million, net to Taylor. During 2002, gains of $0.5 million reduced the deficit to an estimated $1.6 million as of December 31, 2002.

Capital Expenditures

The Partnership had gross capital expenditures of $38.2 million for the year ended December 31, 2002, of which $20.4 million was charged to the Younger Plant and Joffre Plant joint venture partners.

Equity

As of December 31, 2002 Taylor had 9,722,713 Partnership units outstanding, unchanged from December 31, 2001. As of December 31, 2002 options to purchase 524,550 (2001 – 608,150) Partnership units at prices ranging from $3.75 to $6.85 per unit were outstanding, of which 497,050 (2001 – 598,150) were exercisable.

Effective January 1, 2002 Taylor adopted new Canadian accounting standards relating to Partnership unit-based compensation and other Partnership unit-based payments to non-employees. Commencing January 1, 2002, for options or similar instruments granted to non-employees, an amount equal to the grant date fair value, if any, will be recorded as a cost over the vesting period. For options granted to employees of the Partnership, the standard provides that the Partnership may elect not to use this fair value method, but to disclose the impact of the fair value method on a pro-forma basis. The Partnership granted 22,500 options to employees of the Partnership, and none to the Manager or its employees, during 2002. The fair value of these options had no impact on the financial statements for the year ended December 31, 2002.

Minority Interest in Partnership

Minority interest in the Partnership increased to $9.2 million in 2002 from $8.6 million in 2001. The minority interest in Taylor is comprised of limited partners that hold Taylor Gas Liquids Limited Partnership expansion units. These units are entitled to fund 26.75 percent of capital expenditures incurred by the Taylor Gas Liquids Limited Partnership at the Younger Plant.

Financial Position

The following table outlines the significant changes between the consolidated balance sheets at December 31, 2002 and 2001:

(In thousands of Canadian dollars)	Increase (Decrease)	Explanation
Cash	3,174	Refer to Consolidated Statements of Cash Flow.
Accounts receivable	(2,181)	Reduction due to the collection of insurance settlement proceeds from the other owners of the Younger Plant.
Due from Manager	1,145	During 2002, overhead recoveries exceeded the administration costs of the Manager, resulting in the difference being refundable by the Manager back to the Partnership in accordance with the Administration Agreement. The refundable amount reduced the administration costs of the Partnership to $9 for the year ended December 31, 2002.
Capital assets under construction	(8,656)	JEEP net expenditures moved to capital assets. Nil balance as of December 31, 2002.
Capital assets	23,767	JEEP construction completed and balances moved from capital assets under construction, as stated above. Capital assets reduced by depreciation of $2,663 during 2002.
Accounts payable	(938)	Decreased due to insurance settlement proceeds paid to partners.
Deferred revenue	(2,352)	Deferred revenue moved to income as business interruption insurance claim settled. Nil balance as of December 31, 2002.
Current portion of long-term debt	(1,365)	New debt facility does not start repayment until after the first anniversary of JEEP completion. No current balance as of December 31, 2002.
Long-term debt	20,203	Increased due to draws on new debt facility to pay for JEEP construction costs.
Advance from joint venture Partner	1,500	Advance received during 2002 for the construction of JEEP.
Minority interest in partnership	651	Capital contributions from limited partners representing the funding portion required for the property insurance shortfall.
Unitholders' equity	(275)	Net income for the year less cash distributions.

Liquidity and Capital Resources

The following table summarizes the changes in cash flow for the year ended December 31, 2002 compared to 2001:

(In thousands of Canadian dollars)	2002	2001	Explanation
Cash, beginning of period	1,263	2,281	
Cash provided by (used in):			
Operating activities	(1,393)	7,220	In 2002, cash used in operting activities was $1,393 which consisted of net cash generated from operations of $6,695 less an increase in net cash working capital from operations due to the transfer of deferred revenue to income upon settlement of the business interruption insurance claim, an increase in the amount due from the Manager and a reduction of accounts payable and accrued liabilities. The first half of 2001 had significant marketing pool contributions and realization of deferred revenue from the fourth quarter of 2000.
Financing activities	16,696	(1,886)	In 2002, net cash was generated from draws on the new debt facility to pay for JEEP construction costs of $18,905 construction advance of $1,500 and net limited partner contributions of $651 less cash distributions of $4,278. 2001 net cash flow was comprised of increased debt, use of working capital for amounts owed to limited partners, and capital contributions made by limited partners, less cash distributions of $5,250 and reduction of construction costs payable of $1,578.
Investing activities	(12,128)	(6,352)	In 2002, the Joffre Plant and Younger Plant had net expenditures of $17,774 less the use of $5,646 in working capital. 2001 was comprised of JEEP capital expenditures.
Cash, end of period	4,438	1,263	

As of December 31, 2002 Taylor's working capital was $3.9 million, net of current payables of $5.6 million for Joffre Plant and Younger Plant construction costs. These payables will be paid out of excess cash that was drawn in advance from the long-term debt facility and available debt capacity, as well as amounts owing from our partner in JEEP.

During the first quarter of 2002, the Partnership finalized financing with a syndication of Canadian banks to provide funds for JEEP and to consolidate debt. The debt structure provides for a $32 million committed term facility and a $7.5 million demand operating facility. As of December 31, 2002 the Partnership had drawn $31.4 million of the term facility, leaving available capacity on the term facility of $0.6 million.

During the third quarter of 2002, the Partnership finalized term facility financing of $2.0 million to provide funds for Younger Plant capital projects. As of December 31, 2002 the Partnership had drawn $0.7 million of the term facility, leaving available capacity on the term facility of $1.3 million.

Business Risks

Taylor's natural gas liquids extraction and marketing operations are exposed to a number of business risks that can significantly affect its financial results. These include internal risks such as operational and production risks and external factors such as fluctuations in commodity prices, foreign exchange and interest rates, government regulations and taxes, transportation and marketing constraints and environmental and safety concerns.

Taylor has actively structured business arrangements to mitigate the effect of certain risks on the Partnership's income and distributions. These include long-term marketing agreements with EnCana Corporation for Younger Plant production and with NOVA Chemicals Corporation for Joffre Plant production.

Operational and Production Risk

Taylor has diversified its income from operations by developing return on capital derived fixed fee, fee for service and performance-based profit share income. The fixed fee income is related to capital spent, whereas fee income and profit share income are sensitive to the volume of natural gas liquids produced and operating expenses incurred. In addition, Taylor carries insurance to cover physical losses, liabilities and business interruption. Portions of Taylor's accounts receivable are with joint venture partners in the oil and gas industry and are subject to normal industry credit risks.

Commodity Price Risk

Taylor's exposure to commodity prices relates to the margin between the value of the products produced, which are natural gas liquids and the cost of the raw material – shrinkage gas.

At the Younger Plant, Taylor has mitigated this risk through the structure of the natural gas liquids Purchase Agreement with EnCana Corporation. Under this agreement, Taylor sells the natural gas liquids produced at the Younger Plant on a cost-of-production basis, with a formula-derived minimum price, plus a share of the ultimate profits that EnCana Corporation receives from the final sale of the product. When the minimum price formula exceeds the actual final price, the deficiency is held in a deferral account and carried forward to be applied against future profits.

At the Joffre Plant, Taylor has mitigated commodity price risk through the structure of the Ethane Sales Agreement with NOVA Chemicals Corporation. Under this agreement, NOVA Chemicals Corporation pays Taylor a fixed fee regardless of volume of ethane produced. In addition, JEEP has been designed with increased production flexibility to allow the

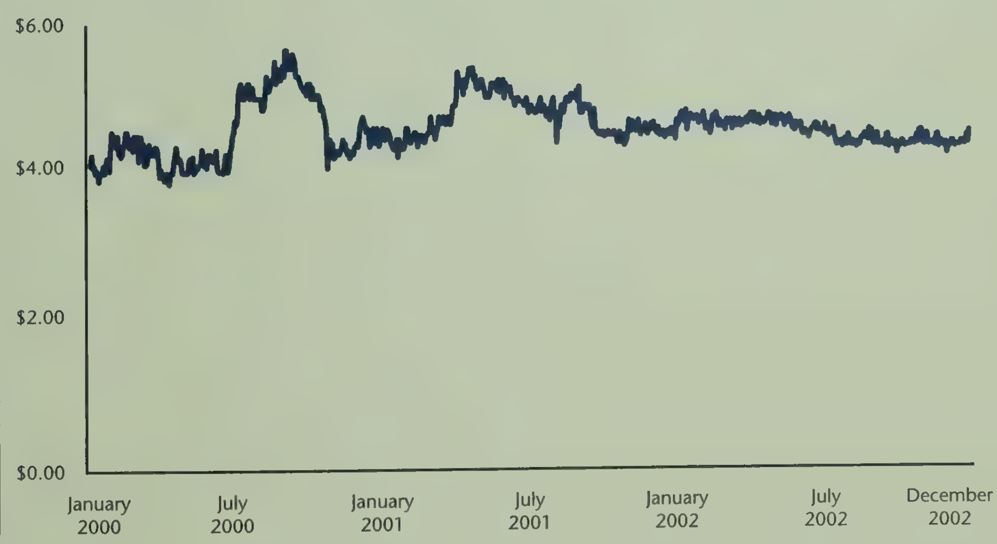
selective rejection of either ethane or C_3^+. For instance, if C_3^+ margins are poor, the Joffre Plant can simply not recover the product, hence not incur the associated feedstock costs. Similarly, if NOVA does not require ethane, the Joffre Plant can leave the ethane in the natural gas stream, yet continue to extract C_3^+ with no effect on the fixed fee received from NOVA Chemicals Corporation.

2002 Distributions

$/Unit	Q1	Q2	Q3	Q4	Total
1996	–	–	0.24	0.74	0.98
1997	0.45	0.21	0.26	0.38	1.30
1998	0.22	0.10	0.08	0.11	0.51
1999	0.11	0.13	0.12	0.12	0.48
2000	0.10	0.10	0.24	0.17	0.61
2001	0.15	0.12	0.10	0.13	0.50
2002	0.10	0.10	0.11	0.14	0.45

Unit Price Trading Activity

Daily Closing Unit Price



Management's Responsibility Statement

Taylor Gas Liquids Ltd., as general partner of Taylor NGL Limited Partnership, is responsible for the preparation of the financial statements and for the consistency therewith of all other financial and operating data presented in this annual report. The financial statements have been prepared in accordance with the accounting policies summarized in the accounting policies' note. The financial statements are in accordance with Canadian generally accepted accounting principles appropriate in the circumstances and have been prepared within acceptable limits of materiality. The financial information contained elsewhere in the annual report has been reviewed to ensure consistency with that in the financial statements. Management maintains a system of internal accounting controls in order to provide reasonable assurance as to the reliability of the financial records and the safeguarding of assets. External auditors have examined the financial statements and have expressed their opinion on the statements. Their report is included with the financial statements. The Audit Committee of the Board of Directors, which is comprised of three independent directors, has discussed the financial statements with management and the external auditors. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

Robert J. Pritchard
President and
Chief Executive Officer

Barry O'Brien
Secretary and
Chief Financial Officer

January 21, 2003

Auditors' Report to the Unitholders

We have audited the consolidated balance sheets of Taylor NGL Limited Partnership as at December 31, 2002 and 2001 and the consolidated statements of income and unitholders' equity and cash flow and distributable cash flow for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada

January 21, 2003

Consolidated Balance Sheets

As at December 31,	2002	2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,437,783	$ 1,263,329
Accounts receivable (note 3)	9,269,402	11,450,170
Due from Manager (note 9)	578,755	–
Prepaid expenses and interest	189,586	–
	14,475,526	12,713,499
Capital assets under construction (note 2(c))	–	8,656,474
Capital assets (note 4)	112,416,005	88,648,884
	$ 126,891,531	$ 110,018,857
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 8,920,281	$ 9,857,978
Unitholders' distributions payable	1,361,180	1,263,953
Due to limited partners (note 10)	331,531	414,730
Due to Manager (note 9)	–	565,508
Deferred revenue (note 3)	–	2,352,211
Current portion long-term debt (note 5)	–	1,365,086
	10,612,992	15,819,466
Long-term debt (note 5)	32,029,337	11,826,491
Advance from joint venture partner (note 4)	1,500,000	–
Minority interest in Partnership (note 1)	9,216,824	8,565,640
	53,359,153	36,211,597
Unitholders' equity (note 6)	73,532,378	73,807,260
Organization (note 1)		
Plant operations and contingencies (note 3)		
Commitment (note 11)		
	$ 126,891,531	$ 110,018,857

See accompanying notes to consolidated financial statements.

Approved by the Board:

Robert B. Catell
Director

Robert J. Pritchard
Director

Consolidated Statements of Income and Unitholders' Equity

Years ended December 31,	2002	2001
REVENUE:		
Natural gas liquids sales	$ 77,953,173	$ 110,205,793
Fee income	6,993,218	6,535,190
Other	140,879	593,083
	85,087,270	117,334,066
EXPENSES:		
Shrinkage gas	64,957,050	95,738,630
Operating	12,173,517	12,009,934
Administration (note 9)	8,533	999,046
Depreciation	2,662,904	2,600,549
Interest	384,947	464,935
Unrealized foreign exchange loss (gain) (note 2(g))	(67,801)	659,070
	80,119,150	112,472,164
Income before the following	4,968,120	4,861,902
Management fees (note 9)	(239,970)	(226,322)
Overhead recovery fees (note 9)	(1,728,550)	(1,016,064)
Distributions to limited partners (note 10)	(1,460,960)	(1,517,832)
Insurance recovery (note 3)	2,561,699	–
Net income	4,100,339	2,101,684
Unitholders' equity, beginning of year (note 2(g))	73,807,260	76,555,376
Issue of units on exercise of options	–	11,393
Unitholders' distributions declared	(4,375,221)	(4,861,193)
Unitholders' equity, end of year	$ 73,532,378	$ 73,807,260
Net income per Partnership Unit:		
Basic	$ 0.42	$ 0.22
Diluted	$ 0.42	$ 0.21

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flow and Distributable Cash Flow

Years ended December 31,	2002	2001
CASH PROVIDED (USED IN):		
OPERATIONS:		
Net income	$ 4,100,339	$ 2,101,684
Depreciation	2,662,904	2,600,549
Unrealized foreign exchange loss (gain)	(67,801)	659,070
	6,695,442	5,361,303
Change in non-cash working capital	(8,088,567)	1,859,220
	(1,393,125)	7,220,523
FINANCING:		
Unitholders' distributions paid	(4,277,994)	(5,249,585)
Due to/from limited partners	(83,199)	980,964
Limited partner contributions	651,184	125,499
Advance from joint venture partner	1,500,000	-
Construction costs payable	-	(1,578,687)
Long-term debt	18,905,561	3,824,697
Units issued for cash	-	11,393
	16,695,552	(1,885,719)
INVESTMENTS:		
Working capital used in construction	5,645,578	1,617,810
Reimbursement of capital by joint venture partner (note 4)	20,400,803	-
Capital expenditures	(38,174,354)	(7,970,069)
	(12,127,973)	(6,352,259)
Change in cash and cash equivalents	3,174,454	(1,017,455)
Cash and cash equivalents, beginning of year	1,263,329	2,280,784
Cash and cash equivalents, end of year	$ 4,437,783	$ 1,263,329
Distributable cash flow:		
Net income	4,100,339	2,101,684
Depreciation	2,662,904	2,600,549
Unrealized foreign exchange loss (gain)	(67,801)	659,070
Working capital reserved	(2,320,221)	(500,110)
	$ 4,375,221	$ 4,861,193
Distributable cash flow per Partnership Unit	$ 0.45	$ 0.50

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

Years ended December 31, 2002 and 2001

1. Organization

The Taylor NGL Limited Partnership (the "Partnership") was formed on August 16, 2000 whereby the Partnership became the sole holder of Base Partnership Units and Class C Expansion Units of the Taylor Gas Liquids Limited Partnership (the "TGLL Partnership"), which has an interest in the Younger Extraction Plant (the "Younger Plant") located at Taylor, British Columbia. Previously, the Partnership was an unincorporated Trust, Taylor Gas Liquids Fund (the "Fund"), which was formed under the laws of the Province of Alberta pursuant to a Trust indenture dated May 15, 1996. The general partner of the Partnership is Taylor Gas Liquids Ltd. ("Taylor Ltd."), while the public holds the Partnership Units (the "Units").

The general partner of the TGLL Partnership is Taylor Operations Company Inc. ("TOCI"), a wholly-owned subsidiary of Taylor Management Company Inc. ("TMCI"). The limited partners of the TGLL Partnership include the Partnership, TMCI and other non-related parties. Under a five year term, effective January 1, 2001, the general partner of TGLL Partnership is entitled to a management fee equal to 2.75% of net revenues of TGLL Partnership and a performance compensation fee if distributable cash of the Partnership exceeds 70 cents per unit per year. In addition, the general partner of TGLL Partnership is entitled to the overhead charges recovered by the TGLL Partnership under the marketing and related agreements, net of administration costs incurred by TMCI, with any difference being billed or transferred to the Partnership.

The limited partners of the TGLL Partnership, other than the Partnership, are entitled to the portion of the distributions attributable to 26.75% of production in excess of the estimated plant capacity as at the time of the acquisition of the Younger Plant by the Fund. In addition, limited partners, other than the Partnership, have the option to contribute capital equal to 26.75% of any future capital expenditures of the TGLL Partnership in return for distributions equal to the associated recovery of capital earned by the TGLL Partnership.

In accordance with the terms of the partnership agreement and related agreements, cash not required for the business of the TGLL Partnership will be distributed to the Partnership on a quarterly basis, who in turn will distribute to the unitholders of the Partnership.

On December 31, 2001, the Partnership transferred the construction in progress balances of the Joffre Ethane Extraction Plant (the "Joffre Plant") to Joffre Gas Liquids Limited Partnership (the "JGLL Partnership"), which was formed to be the owner of the Joffre Plant. The Partnership holds 99.99% of the Base Partnership Units of JGLL Partnership. The remaining Base Partnership Units of JGLL Partnership are held by the general partner, TOCI.

2. Significant accounting policies

(a) Basis of presentation

These consolidated financial statements include the accounts of the TGLL Partnership, JGLL Partnership, Taylor Ltd. and the Fund.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts. These estimates are subject to uncertainty and may impact financial statements of future periods.

Certain comparative figures have been reclassified to conform with the current period's presentation and to comply with these significant accounting policies.

(b) Revenue

All natural gas liquids produced by the TGLL Partnership at the Younger Plant are sold at the outlet of the plant under a long-term marketing agreement with EnCana Corporation. Pursuant to the terms of the marketing agreement, the TGLL Partnership's revenue is based on a return on capital, recovery of operating costs and natural gas costs and a 50% share of the proceeds received from the final sale of natural gas liquids by EnCana Corporation net of all costs. If the proceeds on the sale of natural gas liquids do not exceed the return on capital and operating and natural gas costs, then future proceeds will only accrue to the TGLL Partnership after the retirement of this deficiency. As at December 31, 2001, the TGLL Partnership's share of this deficiency was estimated to be $1.6 million (2001 – $2.1 million).

The ethane produced at the Joffre Plant will be sold at the outlet of the plant under a long-term agreement with NOVA Chemicals Corporation. Pursuant to the terms of the agreement, the sales price is based on a return on capital fee and recovery of a pro-rata share of the operating costs associated with the ethane production. The remaining natural gas liquids produced at the Joffre Plant will be sold into the Alberta market at prevailing prices.

(c) Capital assets

The construction of the Joffre Plant was completed in December 2002 and the cost basis was added to capital assets.

The Younger Plant is depreciated over a 40-year period, commencing July 1, 1996, using the straight-line method of depreciation. The Joffre Plant will follow the same depreciation method commencing in 2003.

The Younger Plant, Joffre Plant and subsequent additions to each of these plants are recorded at cost. Repairs and maintenance costs are expensed in the period incurred.

In accordance with various agreements, the TGLL Partnership is party to indemnities with respect to future site restoration and reclamation costs. These amounts, together with salvage values, are anticipated by management to be in excess of future site restoration and reclamation costs.

2. Significant accounting policies (continued)

(d) Income taxes

Pursuant to the August 16, 2000 restructuring of the Fund to a limited partnership, the income of the Partnership is taxed at the partner level. As a result, provision for income and capital taxes is the responsibility of the limited partners.

(e) Per unit amounts

The net income per unit was calculated based on the weighted average number of Units outstanding of 9,722,713 for the year ended December 31, 2002 (2001 – 9,722,097). In computing diluted net income per unit, 43,636 Units were added to the weighted average number of Units outstanding during the year ended December 31, 2002 (2001 – 96,942). The distributable cash flow per unit was calculated using the total number of Units outstanding at the end of the year.

(f) Partnership unit-based compensation plan

Commencing January 1, 2002, for options or similar instruments granted to non-employees, an amount equal to the grant date fair value, if any, will be recorded as a cost over the vesting period. For options granted to employees of the Partnership, the standard provides that the Partnership may elect not to use this fair value method but to disclose the impact of the fair value method on a pro forma basis. The Partnership granted 22,500 options to employees of the Partnership and none to TMCI, or its employees, during 2002. The fair value of these options had no impact on the financial statements for the year ended December 31, 2002.

(g) Foreign currency

Effective January 1, 2002, the Partnership changed its policy for accounting for foreign exchange gains or losses on the translation of non-current monetary balances. Under the new policy, gains or losses on the translation of non-current monetary balances are charged directly to income. Previously these gains and losses were deferred and amortized to income over the life of the non-current monetary balances. The change in accounting policy was applied retroactively with restatement of prior periods. As at January 1, 2001, the deferred foreign exchange gain of $97,241 was transferred to unitholders' equity. The change in accounting policy resulted in the recognition of an income increase for the year ended December 31, 2002 of $67,801 and an income decrease for the year ended December 31, 2001 of $659,070.

The Partnership translates its monetary foreign currency balances using year-end rates. Transactions during the year are recorded at the exchange rate in effect on that date. Foreign exchange gains and losses are included in income.

(h) Cash and cash equivalents

The Partnership considers cash and short-term deposits with maturities of three months or less as cash and cash equivalents.

3. Insurance claims and contingencies

On January 27, 1999, an incident caused the Younger Plant to be shut down for approximately one year. The Partnership submitted claims and drew funds from its insurers to meet the Younger Plant reconstruction costs and replace profits which would have been generated by the Younger Plant if normal operations had continued uninterrupted. The owners of the Younger Plant reached a settlement with the insurers in December 2002 that resolved the balance of the claims submitted for property reconstruction and business interruption. In December 2002, $2,595,636 was collected from other Younger Plant owners and $1,939,645 was collected from the insurers during January 2003, in respect of the claim settlement.

During 1999, $2,352,211 of the amount claimed under the business interruption coverage was included as deferred revenue. As a result of the settlement, this amount was included in net income for the year ended December 31, 2002, including additional recoveries for a total $2,561,699.

The Partnership has been named, along with certain other parties, in lawsuits for losses incurred as a result of the Younger Plant shut-down in 1999. Management believes that the claimants will not be successful. In the event that a third party liability claim is successful, the Partnership's liability insurance is sufficient to cover the Partnership's portion of such claim.

4. Capital assets

	2002	2001
Younger Plant and Joffre Plant	$ 127,856,686	$ 101,426,661
Accumulated depreciation	(15,440,681)	(12,777,777)
	$ 112,416,005	$ 88,648,884

Included in capital assets was capitalized interest of $721,339 (2001 – $223,760).

Under a joint venture agreement, the JGLL Partnership and AltaGas Services Inc. ("AltaGas") each own 50% of the Joffre Plant. AltaGas has reimbursed the JGLL Partnership for 50% of the costs required to complete the project as at December 31, 2002. As part of this reimbursement, $1.5 million was paid by AltaGas to the JGLL Partnership, subject to repayment under certain conditions relating to the commercial operations of the Joffre Plant. Management believes that these conditions will be met, however the amount has been included as an advance, as such conditions have not been met as at December 31, 2002.

5. Long-term debt

Years ended	2002	2001
Term facility	$ 31,361,680	$ 9,191,577
Younger Capital Project Facility	667,657	–
Interim development facility	–	4,000,000
	32,029,337	13,191,577
Less current portion	–	1,365,086
	$ 32,029,337	$ 11,826,491

During the year ended December 31, 2002, the Partnership refinanced the term and interim development facilities that existed as at December 31, 2001. These facilities were refinanced into a syndicated $32 million committed term facility with two Canadian chartered banks (the "New Facility"). Interest payable is at banker's acceptance rates plus stamping fees plus applicable margins. As at December 31, 2002, the banker's acceptance rate for the New Facility was 2.83%. The margins and stamping fees vary depending on financial statement ratios and can range from 1.75% to 1.88%. As at December 31, 2002, the amount available under the New Facility was $0.6 million.

The New Facility is repayable in equal quarterly installments over a 14 year period starting the earlier of one year after the commencement of commercial operations of the Joffre Plant, or September 30, 2004. The New Facility is subject to renewal on July 15, 2004.

In addition, during the year ended December 31, 2002, the Partnership secured an additional bank debt facility to finance future capital projects at the Younger Plant ("Younger Capital Project Facility"). As at December 31, 2002, the amount available under the Younger Capital Project Facility was $1.3 million.

The New Facility and the Younger Capital Project Facility is secured by a $45 million first fixed and floating charge debenture on all of the Partnership's assets.

The Partnership also maintains $7.5 million demand operating facility, reduced by letters of credit of $0.7 million, that bears interest at the bank's commercial lending rate.

6. Unitholders' equity

(a) Authorized:

Unlimited Partnership Units

(b) Issued:

	Number of Units	Amount
Balance, December 31, 2000	9,719,675	$ 76,555,376
Net income for the year	–	2,101,684
Unitholders' distributions	–	(4,861,193)
Units issued on exercise of options	3,038	11,393
Balance, December 31, 2001	9,722,713	73,807,260
Net income for the year	–	4,100,339
Unitholders' distributions	–	(4,375,221)
Balance, December 31, 2002	9,722,713	$ 73,532,378

(c) The limited partners of TGLL Partnership, other than the Partnership, are entitled to exchange their TGLL Partnership Units for that number of Partnership Units which had the same aggregate cash entitlement over the preceding four quarters as the aggregate cash distributions received by them as TGLL Partners. During the year ended December 31, 2001 and 2002, none of the limited partners exercised this right.

7. Partnership unit option plan

A Partnership Unit option plan provides for the issuance of options to acquire Units to employees and directors of Taylor Ltd., excluding management. The number of Units reserved is limited to 783,650. The options expire at various dates to December 10, 2007. Options vested as at December 31, 2002 were 497,050. The remaining outstanding options will vest during 2003 and 2004, in the amounts of 16,250 and 11,250, respectively.

The following tables summarizes information about Partnership Unit options as at December 31, 2002 and 2001:

		2002		2001
		Average		Average
	Options	Exercise Price	Options	Exercise Price
Outstanding, beginning of year	608,150	$ 5.95	350,500	$ 9.52
Granted	22,500	4.34	430,000	4.64
Exercised	–	–	(3,038)	3.75
Expired	(106,100)	11.64	(169,312)	10.08
Outstanding, end of year	524,550	$ 4.73	608,150	$ 5.95
Exercisable, end of year	497,050	$ 4.75	598,150	$ 5.98

Exercise Price	Number Outstanding	Number Exercisable	Weighted Average Remaining Life (years)
$ 3.75	34,550	34,550	1.9
4.34	22,500	–	4.9
4.40	10,000	5,000	4.0
4.65	420,000	420,000	3.1
6.85	37,500	37,500	0.6
$ 3.75 to $ 6.85	524,550	497,050	2.9

8. Pension plan

The Partnership has a defined benefit pension plan which covers Younger Plant employees represented by a union with which the Partnership has a collective bargaining agreement. The plan provides pensions based on length of service and the highest consecutive three years' average earnings.

As at December 31, 2002, the market value of the assets of the Plan was $1,072,600 (2001 - $887,400). The estimated actuarial present value of the associated liabilities as at December 31, 2002 was $1,064,900 (2001 - $914,800).

The significant actuarial assumptions, adopted in measuring the accrued benefit obligations for 2002 and 2001, were a discount rate of 7% and a rate of compensation increase of 4.5%.

The employer's contributions and expenses for the plan during the year ended December 31, 2002 were $115,600 (2001 - $152,800) and benefits paid during 2002 were $10,600 (2001 - Nil).

9. Management fees and overhead recoveries paid to Manager

For the year ended December 31, 2002 the management fee and overhead recoveries paid to TOCI, the general partner of the TGLL Partnership and JGLL Partnership, were $239,970 (2001 - $226,322) and $1,728,550 (2001 - $1,016,064), respectively.

Pursuant to the Administration Agreement between TMCI, Taylor Ltd. and the Partnership, in the event that overhead recoveries paid to the general partner are in excess of administration costs of the general partner, the excess recoveries are payable back to the Partnership. Subject to the same agreement, in the event that administration costs of the general partner are in excess of overhead recoveries, the excess costs are payable by the Partnership to the general partner. Excess recoveries payable to the Partnership by the manager or additional costs payable by the Partnership to the manager are applied to the Partnership's administration expenses.

For the year ended December 31, 2002 the overhead recoveries paid to the general partner exceeded the administration costs of the manager by $999,646. Hence, administration expenses of the Partnership were reduced during 2002, for a net administration expense of $8,533. As a result of this difference between overhead recoveries and administration costs, the manager owed $578,755 to the Partnership, net of management fees, as at December 31, 2002. For the year ended December 31, 2001 administration costs of the manager exceeded overhead recoveries by $36,604. Hence, administration expenses of the Partnership for 2001 were $999,046. As a result, the Partnership owed $565,508 to the manager, including management fees, as at December 31, 2001.

10. Distributions to limited partners

Distributions to the limited partners of TGLL Partnership, other than the Partnership, for the year ended December 31, 2002 were $1,460,960 (2001 - $1,517,832).

As at December 31, 2002, the $331,531 (2001 - $414,730) due to limited partners of TGLL Partnership relates to their distributions owing net of contributions owing for capital expenditures of the TGLL Partnership.

11. Commitment

As at December 31, 2002, future minimum lease payments for office space were $182,340 for each of the years 2003 through 2006.

As at December 31, 2002, future minimum lease payments for land use associated with the Joffre Plant were $15,000 for each of the years 2003 through 2033.

12. Financial instruments

Interest rate risk

As at December 31, 2002 the Partnership was exposed to floating interest rates with respect to its long-term debt and had no fixed interest rate borrowings extending beyond one year. Sustained increases in interest rates would result in increased revenue under the terms of the existing marketing agreement with EnCana Corporation.

Foreign currency risk

The Partnership is exposed to foreign currency fluctuations as a portion of long-term debt is held in US dollars. The TGLL Partnership receives US dollars as part of its revenue under the marketing agreement with EnCana Corporation, which mitigates this risk. The US dollar amounts received are in excess of the interest costs associated with the Partnership's US denominated long-term debt.

Credit risk

A significant portion of revenue from the Younger Plant is received from a single customer, EnCana Corporation, under a long-term marketing agreement. The remaining portion of the Partnership's accounts receivable are with joint venture partners in the oil and gas industry and are subject to normal industry credit risks.

Fair value of financial instruments

The carrying amount of the Partnership's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, due from manager and due to limited partners approximate fair value due to the near term nature of these financial instruments. The carrying value of bank debt approximates fair value as it bears floating interest rates.

13. Supplementary cash flow information

The change in non-cash working capital from operations was comprised of:

	2002	2001
Accounts receivable	$ 647,411	$ 4,295,872
Accounts payable and accrued liabilities	(5,146,639)	(2,665,736)
Prepaid expenses	(92,865)	106,826
Payable to manager	(1,144,263)	122,258
Deferred revenue	(2,352,211)	-
	$ (8,088,567)	$ 1,859,220

Cash interest paid for the year ended December 31, 2002 was $882,526 (2000 - $580,691).

Corporate Governance

The general partner of Taylor NGL Limited Partnership is Taylor Gas Liquids Ltd., which is governed by a Board of Directors. The Board of Directors has ultimate responsibility for the management of the Partnership including the development of a strategic plan, identifying and controlling the principal risks of the Partnership, developing communications, policies and internal control and management systems. The Board has six directors. Four are nominated by the unitholders. Taylor Management Company Inc. and TNG Liquids Ltd. nominate the remaining two directors. In 2001 the Board convened an Audit Committee. The Committee has adopted a charter that clearly defines its responsibilities in the areas of external audit, internal controls, governance and financial reporting. The Board does not have a compensation committee or a nominating committee due to the limited nature of the Partnership's activities. The entire Board addresses matters in these areas. The general partner of the Partnership has entered into an Administration Agreement with Taylor Management Company Inc. to provide management and administrative services. Taylor Management Company Inc. is reimbursed for actual costs incurred in performing these duties plus a management fee of 2.75 percent of net operating cash flow, plus a performance-based fee that is paid if distributable income is greater than $0.70 per unit annually. There are no acquisition or divestment fees paid to Taylor Management Company Inc.

Corporate Information

Annual General Meeting

The Annual Meeting of the Taylor NGL Limited Partnership will be held on May 29, 2003, at 8:30 a.m. at the Metropolitan Centre, 333-4th Ave. SW, Calgary, Alberta.

All unitholders are invited to attend. Those who are unable to attend are kindly requested to sign and return their proxies as soon as possible

Shareholder Information

STOCK EXCHANGE LISTING

Toronto Stock Exchange (Symbol TAY.UN)

Transfer Agent and Trustee

Computershare Trust Company of Canada

Legal Counsel

Macleod Dixon, Calgary, Alberta

Auditors

KPMG LLP, Calgary, Alberta

Banker

RBC Royal Bank

Canadian Western Bank

Investor Relations

2200, 800-5th Avenue SW
Calgary, Alberta T2P 3T6
Tel: (403) 781-8181
Fax: (403) 777-1907

Website

www.taylorngl.com

Officers and Directors

Robert R. Andrews,[1] a Director since 1996, is an independent businessman. Mr. Andrews resides in Calgary, Alberta.

Ian D. Bruce,[1] a Director since 1996, is Vice Chairman and Director of Peters and Co. Limited, an investment firm that specializes in underwriting and advisory services for the oil and gas industry. Mr. Bruce resides in Calgary, Alberta.

Robert B. Catell, a Director since 1996, is Chairman of Taylor Gas Liquids Ltd. He is also Chairman and Chief Executive Officer of KeySpan Corporation, an energy-related investment business. Mr. Catell resides in Garden City, New York.

H. Neil Nichols, a Director since 1996, is Senior Vice President of KeySpan Corporation and President of KeySpan Energy Development Corporation. Mr. Nichols resides in Toronto, Ontario.

Barry O'Brien, is Secretary and Chief Financial Officer of Taylor Gas Liquids Ltd. and Taylor Management Company Inc., the manager and administrator of the Partnership. Mr. O'Brien resides in Calgary, Alberta.

Robert J. Pritchard, a Director since December 2000, is President and Chief Executive Officer of Taylor Gas Liquids Ltd. and Taylor Management Company Inc., the manager and administrator of the Partnership. Mr. Pritchard resides in Calgary, Alberta.

David J. Schmunk, is Chief Operating Officer of Taylor Gas Liquids Ltd. and Taylor Management Company Inc., the manager and administrator of the Partnership. Mr. Schmunk resides in Cochrane, Alberta.

Kenneth D. Taylor,[1] a Director since 1996, is Chairman of Global Public Affairs Inc. in Ottawa and New York. Mr. Taylor resides in New York, New York.

[1] Member of Audit Committee

Glossary

bbl	barrel
bbls/day	barrels per day
C_2	ethane
C_3	propane
C_4	butane
C_2^+	mixture of ethane, propane, butane and condensate
C_3^+	mixture of propane, butane and condensate
C_5^+	condensate
GJ	gigajoule
JEEP	Joffre Ethane Extraction Plant located at Joffre, Alberta
mmscf	million standard cubic feet
mmscf/day	million standard cubic feet per day
NGLPA	Natural Gas Liquids Purchase Agreement with EnCana Corporation
NGLs	natural gas liquids
propane plus	mixture of propane, butane and condensate

Designed and produced by MERLIN EDGE Inc. Printed in Canada

TAYLOR NGL Limited Partnership
2200, 800-5th Avenue SW
Calgary, Alberta T2P 3T6
Tel: (403) 781-8181 **Fax:** (403) 777-1907
www.taylorngl.com